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Budget deficit grows again

Legislative economists have said the deficit for the current fiscal year could be a little more than a billion dollars, but the state's top finance official says the new estimate is still too small.

"We've been too optimistic in all of our previous forecasts," said Treasurer Dean Martin.

At a meeting of the Finance Advisory Committee this morning, the head of the Joint Legislative Budget Committee said the shortfall for the current year will likely be between \$700 million and \$1.1 billion. But those numbers don't sit well with Martin, who manages the state's money. He said the account balances are indicative of a much larger deficit.

"I think \$1.1 billion is too optimistic. We think it should be \$300 million to \$400 million larger," he said.

House Appropriations Chairman Russell Pearce, a Republican from Mesa, echoed Martin's assessment.

"I'm really concerned that, as bad as things are, we're still overstating (revenues)," the Mesa Republican said.

As it stands, and as first previously in the Arizona Capitol Times (see story at <http://www.azcapitoltimes.com/story.cfm?id=9580>), Arizona's economy would have to show significant improvement to meet the JLBC shortfall predictions. The \$1.1 billion gap between state revenues and spending assumes a 5.7 percent decline in revenues from the previous fiscal year. After the first quarter of the year, revenues currently stand at 9-percent below last year.

Other economists at the meeting said there is little good news on the horizon.

"Good is not a word that you will associate with 2009," said Elliott Pollack, a Scottsdale economist. "It appears to me that we're in a recession, and this recession is likely to be prolonged."

And Tracy Clark, who edits the JPMorgan Chase Arizona Blue Chip Economic Forecast, said Arizona is particularly vulnerable to a protracted economic slump because the state's economy relies so heavily on the housing and construction sectors. Arizona's housing bubble was among the biggest in the nation, he said, and it will take longer to recover.

"We're not going to see an up-tick in our revenues for quite some time," he said.

The short-term outlook on Arizona's construction-based economy may be particularly grim, Pollack said, because the overdevelopment that has paralyzed the housing market will likely spread to commercial real estate. The poor economy is causing job losses, which in turn leads to fewer purchases and leases of commercial office space. About 1.5 million square feet of the nearly 7.5 million square feet of office space constructed in the Phoenix area since 2007 is occupied.

On top of that, another 3.9 million square feet of office space is under construction in greater Phoenix.

"Between '91 and '94, there was not one square foot of office space built in Phoenix. We could be headed there again," he said, noting that the worst is "not even close to over" for the construction sector of the Arizona economy.

Pollack also noted that 2009 is "likely to be the worst year" for home foreclosures for lenders who had sub-prime, adjustable-rate mortgages.

Despite calls from some lawmakers for the Legislature to convene to address the budget problems, a special session isn't likely in the immediate future. Earlier this month, Gov. Janet Napolitano said she and legislative leaders will meet to discuss solutions after the Nov. 4 elections. In the meantime, JLBC and the governor's budget staff are meeting to develop a consensus on how steep the shortfall will be.

The governor estimates the deficit will be between \$320 million and \$800 million.

Napolitano also has released an outline of her budget-management plan, which relies heavily on state agencies restricting their spending and the still unidentified "budget-management options" that could net the state upwards of \$380 million in savings.

By Jim Small

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